

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 3162 - SB 3162

February 23, 2012

SUMMARY OF BILL: Exempts from state sales tax the retail sale of staple food. Defines “staple food” to mean any food in its raw or natural state that supplies a high proportion of nutrient needs, including the following: produce in a form as to indicate that it is intended for human consumption, with or without any or further home preparation; perishable animal products, grains, dried beans and legumes, and bread-baking products, all of which are intended for home preparation and human consumption; nutritious beverages; and nuts in the shell. Defines “added sweetener,” “bread-baking products,” “grains,” “nutritious beverages,” “perishable animal products,” and “produce.” Establishes that local option sales tax may be levied on the retail sale of staple foods. Holds local governments harmless from the loss of state-shared sales tax revenue. Requires hold-harmless payments be made from the General Fund.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$151,859,900

Increase State Expenditures - \$7,575,000

Increase Local Revenue - \$2,326,900


Assumptions:

- According to the Department of Revenue, and based on data from the Food Marketing Institute, approximately \$144,125,329,000 was spent on staple foods in the United States (U.S.) during 2010.
- Staple food sales grow by two percent per year; as a result, staple food sales in the U.S. for FY12-13 are estimated to be \$149,947,992,292 ($\$144,125,329,000 \times 102.0\% \times 102.0\%$). Staple food sales remain constant in subsequent years under current law
- Based on Tennessee’s population relative to the U.S. population, Tennessee accounts for two percent of national staple food sales.
- Staple food sales in Tennessee are estimated to be \$2,998,959,846 ($\$149,947,992,292 \times 2.0\%$) each year.
- Pursuant to Tenn. Code Ann. § 67-6-228(a), the current state sales tax rate levied on food and food ingredients is 5.5 percent.

- The recurring decrease in state sales tax revenue is estimated to be \$164,942,792 (\$2,998,959,846 x 5.5%).
- Local option sales tax will still be levied on sales of staple foods; therefore, no reduction in local option sales tax revenue.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- Absent any hold harmless provision, the recurring decrease in local revenue pursuant to the state-shared allocation would be approximately \$7,574,998 (\$164,942,792 x 4.5925%). Section 2 of this bill requires local governments be held harmless from the loss of state-shared sales tax revenue, and further requires any hold-harmless payments be made from the General Fund. Therefore, a recurring increase in state expenditures of \$7,574,998 from the General Fund.
- The net recurring decrease in state sales tax revenue directly attributable to the tax exemption on staple foods is estimated to be \$157,367,794 (\$164,942,792 - \$7,574,998).
- Fifty percent of tax savings will be spent in the economy on other non-food sales-taxable goods and services.
- The current state sales tax rate levied on non-food sales taxable goods and services is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales revenue as a result of 50 percent of taxpayer savings being spent in the economy is estimated to be \$5,772,998 (\$164,942,792 x 50.0% x 7.0%); the recurring increase in local option sales tax revenue as a result of 50 percent of taxpayer savings being spent in the economy is estimated to be \$2,061,785 (\$164,942,792 x 50.0% x 2.5%).
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be \$265,125 (\$5,772,998 x 4.5925%).
- The net recurring increase in state sales tax revenue as a result of 50 percent of taxpayer savings being spent in the economy is estimated to be \$5,507,873 (\$5,772,998 - \$265,125).
- The total recurring increase in local revenue as a result of this bill is estimated to be \$2,326,910 (\$2,061,785 + \$265,125).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$151,859,921 (\$157,367,794 - \$5,507,873).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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